A Combination of Longrun Forces and Short-Term Macroeconomic Fluctuations Are Shaping Rural Industry

Several sectors important to the rural economy—agriculture, mining, and manufacturing—showed signs of weakness in 1998. At the same time, the growing importance of technology and a skilled labor force to U.S. industry has important implications for the structure of the rural economy, which has traditionally relied on agriculture, other extractive industries, and low-skill manufacturing. Deregulation of industry raises concerns about rural service, but safeguards have been put in place to protect rural businesses and consumers.

The U.S. economy continued to grow in 1998, but several sectors that are important to the rural economy—agriculture, mining, and manufacturing—have shown signs of weakness. Abundant world supplies and weak foreign demand have pushed down prices for many farm commodities. Financial crises in Asia, Russia, and Latin America have also softened demand for manufactured goods, minerals, and energy. Competition from Asian countries recovering from financial crisis is a concern for U.S. manufacturers. Strong consumer confidence and domestic demand should sustain growth in the U.S. economy in 1999. However, nonmetro growth may be slower, due to weakness in the agricultural, mining, and manufacturing sectors, which together account for one-fourth of nonmetro jobs.

Importance of Worker Skill Is Growing

This Rural Industry issue of *Rural Conditions and Trends* also reports on two longer term trends that have important implications for the rural economy: the increasing demand for skilled versus unskilled workers and deregulation of the transportation, banking, and electricity generation/distribution industries. Projections by the Bureau of Labor Statistics (BLS) indicate that the U.S. economy will continue to add skilled workers in the coming decade. Most new jobs will require post-high school training, and most will be in health, professional, social, and business service industries, which tend to be located in urban areas. Demand for agricultural, manufacturing, and mining output is expected to rise, but productivity gains will result in decreasing demand for workers in these industries.

The divergence in job opportunities and incomes for skilled and unskilled workers has been the subject of considerable debate in the public policy arena over the past decade. Some commentators have attributed this phenomenon to competition from low-wage imports. A recent study by ERS concludes that exported goods and services are somewhat more skill-intensive than those displaced by imports. Over time, however, most U.S. job growth has been due to growing domestic demand. Jobs created by domestic demand are also much higher in skill than either those created by exports or those displaced by imports. Jobs related to exports and imports have grown much more slowly, and in roughly offsetting fashion.

Looking at the involvement of individual firms in export markets gives a different perspective. Nearly half of rural manufacturers have export sales, and those that export perform relatively well on several measures of competitiveness compared with those that do not export. Exporting firms also report more rapid increases in worker skill demands, and exporters are doing more to upgrade their employees' skills.

Labor quality problems have been a common complaint of employers, both rural and urban, in recent years. In an ERS study of manufacturing competitiveness, local labor quality emerged as the most commonly cited problem by both rural and urban manufacturers. Both demand (new technology and increasing skill demands) and supply (problems associated with low education levels) factors contribute to labor quality problems, but no single factor emerges as the key. It seems clear, however, that rural areas face considerable challenges in supplying workers with the requisite skills and work attitude needed by increasingly sophisticated manufacturing businesses.

The challenge of developing a technologically sophisticated industry and a skilled work force appears to be worthwhile. Use of advanced technology and management practices is associated with substantially higher wages and provision of benefits, which may help offset the negative effects of declining unionization on worker earnings and benefits.

Technology-intensive firms are more inclined to offer profit-sharing plans for workers, which gives employees a greater stake in the success of the company.

Deregulation Raises Concerns for Rural Businesses and Consumers

This issue also reports on several industries that are in various stages of deregulation: transportation, electricity, and banking. Deregulation is believed to increase the efficiency of the economy and provide benefits to consumers. However, rural areas are concerned about being left behind. Since rural markets are often not large enough to justify the costs of serving them, businesses may avoid rural markets in a deregulated environment. When service is offered, it may be at a higher price, with fewer choices than are available to urban customers. Reliability of service in the absence of regulation becomes an issue as well, as illustrated by the transportation bottlenecks and electricity rate spikes of 1998.

In the transportation industry, the big news in 1998 was the Transportation Equity Act for the 21st Century, which provides sharp increases in highway and transit program funding over the next 6 years. The increase varies across States, but averages a generous 44 percent. Increased highway construction may facilitate industrial development in less-accessible Western and Appalachian communities, but there is some concern that funding for enforcement of environmental regulations has diverted resources from rural roads and bridges. Funding for rural transit could have important effects by addressing the mismatch between the location of jobs and potential workers in rural areas and by improving access to shopping and services for rural residents. Funding for passenger rail and rural air service was also boosted in 1998. Also in 1998, consolidation of the rail freight industry continued with the purchase of Conrail by Norfolk Southern and CSX.

Deregulation of the electric utility industry has been a high-profile issue. While Congress considers several alternative approaches, most States have already deregulated or are considering it. A number of sticky issues must be resolved before national deregulation can occur. Rural customers are not likely to benefit as much as urban customers, and could face higher electric rates, because rural locations are more costly to service.

The structure of the U.S. banking industry has been changing dramatically over the past two decades, and further change is expected. Consolidation of banks raises concern about the lack of competition and community service in rural markets. However, Federal antitrust guidelines generally prohibit most mergers of banks in small rural communities, and urban banks are very active in rural communities. Financial services deregulation has in some cases spurred rural job creation by allowing credit card operations to locate in rural States.

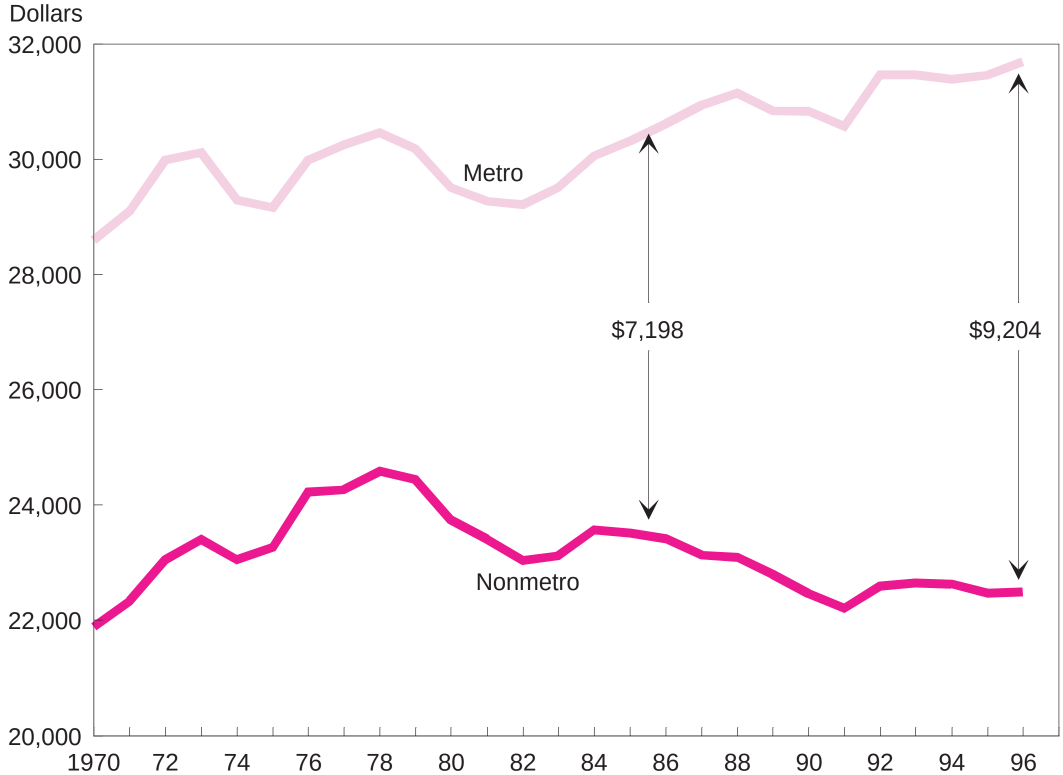
Rural Growth Slowing, Earnings Falling Behind

This issue also provides the most recent data (1996) on nonmetro employment, earnings, farm- and farm-related employment, food and fiber system employment, and activity triggered by agricultural trade. Nonmetro job growth slowed to 1.5 percent in 1995-96 after averaging 2.3 percent during the prior 4 years. Metro job growth was 2.1 percent during 1995-96. Real nonmetro earnings per nonfarm job fell further behind metro, growing only 0.1 percent in 1996 (fig. 1). The gap between metro and nonmetro earnings per nonfarm job grew to $9,204 in 1996, the largest gap measured since the data series began in 1969. *[Fred Gale, 202-694-5349, fgale@econ.ag.gov]*

Figure 1

Real nonfarm earnings per job, metro and nonmetro counties, 1970-96

The gap between metro and nonmetro earnings has widened over the past decade



Source: Calculated by ERS using data from Bureau of Economic Analysis.